

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Hesperia Area Fire Authority	County Oceana
Fiscal Year End March 31 2006	Opinion Date June 2, 2006	Date Audit Report Submitted to State June 9, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

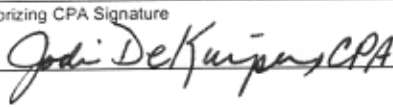
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Hendon & Slate, P.C.		Telephone Number 231-924-6890	
Street Address 711 West Main Street		City Fremont	State Zip MI 49412
Authorizing CPA Signature 	Printed Name Jodi DeKuiper, CPA		License Number 1101021180

**HESPERIA AREA FIRE AUTHORITY
OCEANA COUNTY, MICHIGAN**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2006

TABLE OF CONTENTS

Financial Section

Independent Auditor's Report.....	3.....
Governmental Fund Balance Sheet.....	4.....
Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance.....	5.....
Notes to the Financial Statements.....	6 - 9.....

Required Supplemental Data Section

Budgetary Comparison Schedule.....	10.....
------------------------------------	---------



Hendon & Slate, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS



Hesperia Area Fire Authority
Hesperia, Michigan

Independent Auditor's Report

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of Hesperia Area Fire Authority as of and for the year ended March 31, 2006, which collectively comprise a portion of the Authority's basic financial statements required by accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in the government-wide financial statements for the Authority's governmental activities are not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Hesperia Area Fire Authority as of March 31, 2006 or the changes in its financial position or its cash flows, where applicable, for the year then ended.

Hendon & Slate

Hendon & Slate, PC
Certified Public Accountants
June 2, 2006

Grand Rapids
2025 East Beltline SE
Suite 208
Grand Rapids, MI 49546
Phone (616) 954-3995
Fax (616) 954-3990

Muskegon
950 W. Norton Ave.
Suite 500
Muskegon, MI 49441
Phone (231) 733-0076
Fax (231) 733-0185

Fremont
711 West Main Street
Fremont, MI 49412
Phone (231) 924-6890
Fax (231) 924-4088
Toll Free (800) 924-6891

Whitehall
116 W. Colby, Suite B
Century Building
Whitehall, MI 49461
Phone (231) 893-6772
Fax (231) 893-6773

Hart
2332 North Comfort Drive
Hart, MI 49420
Phone (231) 873-5611
Fax (231) 873-7033

www.hscompanies.com



The CPA. Never Underestimate The Value.®

HESPERIA AREA FIRE AUTHORITY

Governmental Fund Balance Sheet March 31, 2006

	General <u>Fund</u>
ASSETS	
Cash and Equivalents	\$ 21,727
Due from Other Governments	<u>-</u>
 Total Assets	 <u><u>\$ 21,727</u></u>
 LIABILITIES AND FUND EQUITY	
Liabilities	
Payroll Liabilities	<u>\$ 61</u>
 Total Liabilities	 61
 Fund Equity	
Fund Balance	<u>21,666</u>
 Total Liabilities and Fund Equity	 <u><u>\$ 21,727</u></u>

The Notes to the Financial Statements are an integral part of this statement.

HESPERIA AREA FIRE AUTHORITY

Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance For the Year Ended March 31, 2006

	General <u>Fund</u>
Revenues	
Contributions from Local Units	\$ 110,699
Insurance Company Charges	1,707
Grants	7,857
Interest	<u>1,026</u>
 Total Revenues	 121,289
Expenditures	
Public Safety	61,876
Capital Outlay	18,357
Debt Service	<u>40,647</u>
	<u>120,880</u>
 Excess Revenues Over Expenditures	 409
 Fund Balance - Beginning	 <u>21,257</u>
Fund Balance - Ending	<u><u>\$ 21,666</u></u>

The Notes to the Financial Statements are an integral part of this statement.

HESPERIA AREA FIRE AUTHORITY

Notes to the Financial Statements

March 31, 2006

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. **Reporting Entity.** The Hesperia Area Fire Authority is a corporation established by agreement among Greenwood, Newfield, and Denver Townships on April 1, 2001. The Hesperia Area Fire Authority was established to provide fire emergency services, and the equipment and personnel for fire protection, and funding in the geographic area of the townships.

The Authority was formed under the powers of the townships pursuant to the provisions of Act 57 of the Public acts of 1998.

The Hesperia Area Fire Authority is governed by an Authority Board. The Board consists of six members (two from each township) plus a seventh member selected by the other six members from the residents of the township. The members elect a Chairperson and a clerk and annually appoint a fiscal agent.

2. **Measurement Focus, Basis of Accounting and Financial Statement Presentation.** Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Contributions from local units and other revenue that are both measurable and available for use to finance operations and recorded as revenue when earned. Other revenue is recorded when received.

Notes to the Financial Statements (continued)

3. Assets, Liabilities, and Fund Balance

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is generally allocated to each fund-based on the cash balance in each fund.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds". Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds".

Inventories and Prepaid Items - Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase. Normally expenditures are not divided between years by recording of prepaid expenses. There were no material inventories at year-end.

Fund Balance - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

4. Budgets and Budgetary Accounting. The General Fund is under formal budgetary control. The budget shown in the financial statements for this fund was prepared on a basis not significantly different from the modified accrual basis used to reflect actual results and consists only of those amounts contained in the formal budget approved and amended by the Board.

In the body of the financial statements, the Authority's actual expenditures and budgeted expenditures for the budgetary fund has been shown on a functional basis. The approved budgets for this budgetary fund was adopted at the line-item level.

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year no material over-expenditures occurred.

5. Economic Dependency. Based on current fire protection agreements, the majority of the Authority's financing comes in the form of special assessments from three local units of government. The assessment is paid in the beginning of the fiscal year for the taxes billed by the governments in the previous fiscal year.

Notes to the Financial Statements (continued)

6. Encumbrance Accounting. The Authority does not use encumbrance accounting.
7. Estimates. Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported revenues and expenditures/expenses. Actual results could differ from those estimates.

NOTE B DEPOSITS AND INVESTMENTS

Legal Provisions for Deposits and Investments - The Investment of Surplus Funds of Political Subdivisions Act No. 20, Public Acts of 1943, as amended through December 31, 1997, state the Township, by resolution may authorize the Treasurer to invest surplus finds in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2).
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers' acceptances of the United States banks
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating
- g. Mutual funds registered under the investment company act of 1940, title I of chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 801-3 and 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

However, a mutual fund is not disqualified as a permissible investment solely by reason of any of the following:

1. The purchase of securities on a when-issued or delayed delivery basis.
 2. The ability to lend portfolio securities as long as the mutual fund receives collateral all times equal to at least 100% of the securities
 3. The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperations Act of 1967, 1967 (Es Sess) PA7 MCL 124.501 to 124.512.

Notes to the Financial Statements (continued)

- i. Investment pools organized under the surplus Funds investment Pool Act, 1982 PA 367, 129.111 to 129.118
- j. The investment pools organized under the Local government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.

Investments are normally categorized to give an indication of the level of risk assumed by the Authority; however, money market funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investments in the funds comply with the investment authority noted above. Deposits are carried at cost. Cash deposits of the Authority are in one financial institution: Shelby State Bank of Hesperia. These accounts are in the Authority's own name.

The Authority's deposits are in accordance with statutory authority as follows:

	Carrying Amount	Market Value
Checking	\$ 1,668	\$ 8,889
Premium Savings	19,767	19,767
Fire Fighters Savings	292	292
Total	21,727	28,948
FDIC Insured		\$ 28,948
Uninsured		-

NOTE C CAPITAL ASSETS

Management has not presented government-wide financial statements, and thus, neither capital assets nor the related depreciation and accumulated depreciation are reported.

NOTE D RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets and omissions; and natural disasters for which the Authority carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

HESPERIA AREA FIRE AUTHORITY

Budgetary Comparison Schedule For the Year Ended March 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
Revenues				
Contributions from Local Units				
Beaver Township	\$ 6,212	\$ 6,212	\$ 6,212	\$ -
Dayton Township	2,800	2,800	2,800	-
Denver Township	30,489	30,489	30,489	-
Greenwood Township	22,459	22,459	22,439	(20)
Newfield Township	48,759	48,759	48,759	-
Insurance Charges	1,500	1,500	1,707	207
Grant Revenue	-	-	7,857	7,857
Interest Revenue	-	-	1,026	1,026
Miscellaneous Revenue	5,500	5,500	-	(5,500)
	<u>117,719</u>	<u>117,719</u>	<u>121,289</u>	<u>3,570</u>
Total Revenues				
Expenditures - Public Safety				
Wages	18,500	21,300	24,176	(2,876)
Payroll Taxes	5,000	2,000	1,849	151
Supplies	1,300	700	702	(2)
Professional Fees	1,500	1,500	1,498	2
Contracted Services	2,000	2,600	2,600	-
Membership/Subscriptions	100	100	37	63
Fuel - Trucks	1,500	1,500	1,694	(194)
Transportation	1,250	750	287	463
Printing and Publishing	100	100		100
Insurance and Bonds	12,000	12,000	11,790	210
Medical	750	1,150	890	260
Utilities				
Electricity	1,500	1,500	1,290	210
Fuel - Heat	3,000	3,000	2,530	470
Telephone	600	600	605	(5)
Repair and Maintenance				
Equipment	7,000	7,900	7,716	184
Communication	500	500	229	271
Licenses and Permits	-	200		200
Miscellaneous	2,972	672	340	332
Education and Training	1,000	1,000	2,055	(1,055)
Building and Grounds	1,000	2,500	1,588	912
Capital Outlay	15,500	15,500	18,357	(2,857)
Debt Service	40,647	40,647	40,647	-
	<u>117,719</u>	<u>117,719</u>	<u>120,880</u>	<u>(3,161)</u>
Total Expenditures				
Excess Revenues (Expenditures)	<u>\$ -</u>	<u>\$ -</u>	409	<u>\$ 409</u>
Fund Balance - Beginning of Year			<u>21,257</u>	
Fund Balance - End of Year			<u>\$ 21,666</u>	

Companies



Hendon & Slate, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS



June 5, 2006

Hesperia Area Fire Authority
8320 East —20
Hesperia, MI 49421

Dear Board Members:

In connection with our audits of Hesperia Area Fire Authority as of and for the year ended March 31, 2006, we offer the following comments and recommendations.

Books and Records

Generally we found the books and records in good condition. There were a few items which were not properly reported. However, we recommended adjusting entries to the bookkeeper who has recorded them. The following items should be corrected for future reporting:

(1) The timing of checks written at the end of the fiscal year should be monitored closely. We noted that there was a check which cleared in March, 2005. However, the accounting records indicated that the check was dated in April, 2005. Checks should be dated for the date written or when expected to be signed by the Board.

(2) Form 941's should be reconciled with the Form W-2's prior to filing the final quarterly report for each year, when possible. While reviewing the payroll, we noted that there was a payroll reporting was missing one June payroll check. This maybe due to a check being prepared after the reports were completed. The W-2's appeared to be correct.

(3) All paid invoices should be kept by the bookkeeper. We were unable to locate some invoices which were paid from grant awards.

(4) Account classification should be based on the account rather than available budget. We found one item which appeared to be a capital outlay reported in repairs and maintenance. Because this item was not material to the financial statements as a whole, we did not recommend an adjusting entry. We believe that the item was likely recorded to this account due to there being an available budget in this line item. The Authority should amend the budget if it is not sufficient for the individual budget item.

(5) Accounting for the grant funds should be handled within the accounts available to the Authority. The bookkeeper attempted to report the use of the grant funds by listing the grant separately on the balance sheet. We recommend that when future grants are received the bookkeeper report the grant funds received as revenue and the funds spent as expenditures. QuickBooks is capable of tracking these funds by setting up classes. We have reviewed this process with the bookkeeper and believe this will be available to use in the future.

Grand Rapids
2025 East Beltline SE
Suite 208
Grand Rapids, MI 49546
Phone (616) 954-3995
Fax (616) 954-3990

Muskegon
950 W. Norton Ave.
Suite 500
Muskegon, MI 49441
Phone (231) 733-0076
Fax (231) 733-0185

Fremont
711 West Main Street
Fremont, MI 49412
Phone (231) 924-6890
Fax (231) 924-4088
Toll Free (800) 924-6891

Whitehall
116 W. Colby, Suite B
Century Building
Whitehall, MI 49461
Phone (231) 893-6772
Fax (231) 893-6773

Hart
2332 North Comfort Drive
Hart, MI 49420
Phone (231) 873-5611
Fax (231) 873-7033

www.hscompanies.com



The CPA. Never Underestimate The Value.®

GASB 34 - Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments

As you should be aware, the Board has elected to not fully implement GASB 34 as required by generally accepted accounting principles. Therefore, the enclosed audit report indicates this departure from generally accepted accounting principles. The statements which are presented in the financial statements this year are in accordance with the State guidance which indicates that a governmental unit may elect to adopt GASB 34 except for the omission of the following sections will not result in any sanctions: the Government-wide financial statements, the Management's Discussion and Analysis and the Infrastructure Reporting. Since the financial statements do not include these items, we were required to indicate the departure in the audit report. If the Board elects to fully comply with the standard in the future, we will need to receive additional information at that time.

We would be happy to assist the Board with the implementation of any of the above recommendations, including adopting GASB 34. Please feel free to contact our office for such assistance. Also, thank you for the courtesy extended to us during our audit. We look forward to a continued relationship with the Hesperia Area Fire Authority. If you have any questions regarding the audit report, this letter or any other communication, please do not hesitate to call.

Respectfully submitted,

A handwritten signature in cursive script that reads "Jodi DeKuiper, CPA".

Jodi DeKuiper, CPA
Hendon & Slate, P.C.